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PP RUEHCN RUEHGH RUEHVC  
DE RUEHHK #1800/01 1900040  
ZNR UUUUU ZZH  
P 090040Z JUL 07  
FM AMCONSUL HONG KONG  
TO RUEHC/SECSTATE WASHDC PRIORITY 2209  
INFO RUEHOO/CHINA POSTS COLLECTIVE PRIORITY

UNCLAS SECTION 01 OF 04 HONG KONG 001800

SIPDIS

SENSITIVE  
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STATE FOR EAP/CM  
STATE PASS TO HUD SECRETARY JACKSON

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [PREL](#) [PTER](#) [EINV](#) [KIPR](#) [HK](#) [CH](#) [SENV](#) [MC](#)  
SUBJECT: HONG KONG SCENESETTER FOR HUD SECRETARY JACKSON

¶1. (SBU) Summary: The U.S. Consulate General Hong Kong warmly welcomes to your visit next week. U.S. trade, investment, and business with Hong Kong flourish in a largely open environment. Hong Kong is our 15th largest export market, and the United States enjoyed a USD 9.8 billion trade surplus in 2006. Cooperation between the Hong Kong Special Administrative Region Government (HKG) and the U.S. Consulate General remains broad, effective, and mutually beneficial. Key U.S. interests in Hong Kong include the expansion of democracy and protection of human rights; the enhancement of transportation security, particularly through improvements to the existing container security screening programs; the maintenance of effective counter-proliferation and export control regimes (autonomous from the PRC); continued vigilance against money laundering and other illicit financial activities in Hong Kong; strong protections for intellectual property rights; and the improvement of regional air quality. We work closely with the HKG, civil society, and the media to support the growth of democracy and respect for Hong Kong's autonomy, both of which are stipulated in Hong Kong's Basic Law and which the central government in Beijing has pledged to maintain.

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Advancing Democracy  
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¶2. (SBU) Hong Kong remains a society in transition, under the "one country, two systems" commitment contained in the Basic Law. The people of Hong Kong continue to enjoy a broad range of civil and social freedoms, strong legal institutions, the free flow of information, and a highly professional civil service. However, the development of greater democracy and movement toward the goal of universal suffrage, promised in the Basic Law, are proving to be difficult. Hong Kong's achievements and its potential future development form the foundation for its "high degree of autonomy" within China. The U.S. position on universal suffrage has been clear and consistent. The United States supports progress toward universal suffrage in accordance with the Basic Law and the aspirations of the Hong Kong people, who should determine the pace and scope of moving to universal suffrage. The United States has stated publicly and privately that the sooner a roadmap and timetable for universal suffrage are set, the better.

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Politics  
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¶3. (SBU) Your visit follows the ten year anniversary of the establishment of the Hong Kong Special Administrative Region (HKSAR) and the inauguration of Donald Tsang to serve a full five-year term as Chief Executive. Tsang was re-selected as Chief Executive in March 2007. Tsang has pledged publicly

to resolve the issue of democratization during his term; his government is expected to issue a "green paper" outlining his proposals this month. Tsang's new cabinet was sworn in on July 1 and includes many experienced civil servants with limited political party representation, which several political parties claim would stunt the growth of political talent in the HKSAR. Later this year and in early 2008, Hong Kong will hold District Council and Legislative Council (Legco) elections; we anticipate that these contests will build on the heightened public interest in politics generated by the contested 2007 Chief Executive race between Donald Tsang and Alan Leong.

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Economics  
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¶4. (SBU) As before the 1997 handover, Hong Kong remains a valuable partner on trade liberalization and other economic issues. Hong Kong's transparent regulatory regimes, modern financial systems, rule of law, open society, and long experience with capitalism continue to serve as a model for other regional economies. 42% of mainland Chinese trade passes through Hong Kong's ports and airport. But, Hong Kong, like the United States, confronts the multiple challenges of striving to be an efficient transportation and financial center, while at the same time controlling the spread of Weapons of Mass Destruction, drugs and diseases such as Avian Flu.

¶5. (SBU) Hong Kong suffered a series of economic shocks after the handover, including the Asian Financial Crisis, the migration of its manufacturing sector to mainland China, and the SARS outbreak. However, the economy has rebounded in the

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last three years amidst strong growth in China, an increasing number of mainland companies listing on the Hong Kong Stock Exchange (HKEx), increased tourism, and a healthy global economy. Nonetheless, Hong Kong residents are beginning to voice concern over Hong Kong's ability to compete with other regional centers, particularly those in mainland China.

¶6. (SBU) The Closer Economic Partnership Agreement (CEPA), a limited free trade agreement between Hong Kong and mainland China, provides tariff-free import to Mainland China of Hong Kong-origin goods and preferential access for Hong Kong registered companies in 27 services sectors (e.g., logistics, distribution). U.S. and other foreign firms with a significant presence in Hong Kong also are eligible to take advantage of CEPA concessions to enter the mainland market. Through CEPA, Hong Kong is deepening its economic interaction with the Pearl River Delta (PRD) in Southern China to maintain its position as the international gateway to China. Hong Kong faces sharpening competition from mainland rivals in services industries, which currently make up 90% of its GDP; however, its strong rule of law, civil liberties, and transparent society suggest that it will remain China's key finance and services hub.

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Secure Trade  
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¶7. (SBU) As the world's largest source of U.S.-bound containers, Hong Kong was among the first in Asia to participate in the Container Security Initiative (CSI), designed to detect containers that may be carrying Weapons of Mass Destruction (WMD) or their components. Cooperation between Hong Kong Customs and the Department of Homeland Security/Customs and Border Protection on CSI is exemplary. Two port operators, Modern Terminals and Hutchison International Terminal, have conducted private sector trials of the Integrated Container Inspection System (ICIS), which

combines radiological mapping, x-ray images and container tagging and makes a digital record for each container passing through its portals. Hong Kong is a world leader in implementing the Integrated Container Security System. The USG and HKG are currently discussing HKG's participation in the U.S. Secure Freight Initiative. Recent negotiations indicate that we could have an agreement this summer with implementation following shortly thereafter.

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Proliferation, Export Controls, Anti-Money Laundering, CTF  
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¶8. (SBU) The HKG cooperates in preventing the transfer through its ports of goods that could be used by the North Korea (DPRK) in its missile and WMD programs, and Iran in its nuclear and missile programs. Hong Kong authorities emphasize that their Anti-Terrorism, Weapons of Mass Destruction, Narcotics and Serious Crime ordinances provide the necessary legal powers to act and convict persons engaging in illicit activities involving the DPRK and Iran. Hong Kong maintains an effective, highly autonomous, and transparent export control regime. Hong Kong continues to be an important partner in protecting the smooth functioning of the global trading system. Its contributions reflect understanding of its role as a premier transportation center.

¶9. (SBU) As a major international financial center, money laundering is a criminal offense in Hong Kong and money laundering ordinances apply to banks and non-banking financial institutions, such as law and accounting firms. Hong Kong passed counterterrorism financing legislation in ¶2002.

¶10. (SBU) Under the "one country, two systems" reunification model, Hong Kong has authority over all matters except for defense and foreign policy (including U.N. affairs). The PRC ratified both UNSCR 1718 on North Korea and UNSCR 1737 on Iran, and forwarded implementation instructions to the HKG. The HKG finalized its legislation for implementing UNSCR 1718 and is in the process of finalizing legislation to implement UNSCR 1737.

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Intellectual Property Rights  
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¶11. (SBU) Hong Kong is a regional leader in the protection of intellectual property rights (IPR). New legislation and crackdowns on the production and retail levels in the late 1990's resulted in manufacturing moving across the border to

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mainland China. This trend, however, has forced the HKG to increase its efforts to combat the influx of smuggled fake goods with counterfeit pharmaceuticals as the most dangerous items. A large percentage of medications at non-chain pharmacies in Hong Kong sell fake drugs, such as Viagra, diet pills, panadol and even medications used to treat epilepsy, diabetes and other serious disorders. Given Hong Kong's role as a regional shipping and logistics center, Hong Kong must struggle against the endless supply of counterfeit medications and other goods that enter or are transshipped through Hong Kong. Information sharing between the Hong Kong Customs and Excise Department (CED) and U.S. Customs and Border Patrol remains robust, although some U.S. stakeholders in the pharmaceutical and software industries say CED should take a more proactive approach in investigating IPR violations.

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Environment  
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¶12. (SBU) Hong Kong's air quality has deteriorated noticeably over the past ten years due to pollution related to the

tremendous growth of factories across the border in the Pearl River Delta (PRD) of mainland China. It is estimated that 80% of Hong Kong's air pollution comes from factories in the PRD (many of which are owned by Hong Kong investors), while the remaining 20% is produced locally. Concern is growing among Hong Kong residents and business leaders that pollution is having an increasingly negative impact on health, the quality of life, and the economic potential of the city. Business leaders have claimed that the pollution problems make it increasingly difficult for them to attract and retain top international talent to Hong Kong, with the city losing out to Singapore and other regional centers. Local chambers of commerce, NGOs, and other groups have criticized the government for responding slowly to the problem. For the past year, the Consulate and visiting USG officials have highlighted the importance of improved air quality to promote human health and maintain a sustainable pro-growth economy.

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P2E2  
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¶13. (SBU) To address deteriorating air quality, the Consulate launched the Pollution Prevention and Energy Efficiency ("P2E2") initiative to promote a financing model to support clean technology for mainland Chinese enterprises. P2E2 uses loan guarantees from the Asian Development Bank (ADB) or International Finance Corporation (IFC), as well as credits from the U.S. Export-Import Bank, to facilitate loans by Hong Kong commercial banks for the purchase of green and energy efficient equipment for businesses in mainland China. Upon installation of this equipment, mainland businesses will not only produce less pollution, but also increase savings by becoming more energy efficient. These savings are used to pay back loans -- usually within one to three years -- after which on-going savings accrue to the mainland business. The program is geared for power generation, aluminum, cement, ceramics, chemicals, electronics, plastic, metalworking and other sectors. Given American expertise in environmental technology and service firms, the program is well suited to American partners, but does not depend solely on U.S. technology or financing.

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Avian Influenza and Health  
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¶14. (SBU) Hong Kong experienced two human outbreaks of the highly pathogenic H5N1 subtype of the Avian Influenza (AI) virus. The earliest known case of bird-to-human transmission occurred in Hong Kong in 1997 when eighteen people were infected with the H5N1 virus; six died. In a subsequent 2003 outbreak, two Hong Kong citizens died while traveling in southern China. Since 2003, Hong Kong has increased biosanitation controls at poultry farms, slaughterhouses and retailers. Hong Kong health officials have publicly stated the main AI threat comes from migratory birds and birds smuggled in from mainland China. The HKG recently closed the Kowloon bird market after a bird was discovered with the H5N1 virus. The market will reopen soon with new biosanitation measures in place.

¶15. (SBU) Hong Kong has some of the world's leading AI researchers, extensive experience in dealing with SARS, and a well-organized AI preparedness plan. As a WHO testing center for AI, it is a regional leader in AI prevention, monitoring

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and response. The HKG is close to meeting its target of 20 million doses of tamiflu and is developing plans to establish a commercial vaccine production facility in the SAR. Working with the private sector, community groups and counterparts in mainland China and Macau, the HKG continually updates its AI response plan.  
Cunningham